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FISCAL IMPACT STATEMENT

LS 7401 | **NOTE PREPARED:** Jan 18, 2005
BILL NUMBER: HB 1585 | **BILL AMENDED:**

SUBJECT: Innkeeper's tax in CRED districts.

FIRST AUTHOR: Rep. Cheney | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill authorizes a third class city to apply for the designation of a Community Revitalization Enhancement District (CRED) under provisions that currently apply only to first and second class cities. The bill allows a Community Revitalization Enhancement District to capture county innkeeper's taxes in a district located in a county that has adopted an innkeeper's tax under the uniform county innkeeper's tax law.

Effective Date: July 1, 2005.

Explanation of State Expenditures: The changes made by the bill could potentially lead to a significant increase in administrative demands for the Department of State Revenue (DOR), the State Budget Agency (SBA), and the state Budget Committee resulting from the Community Revitalization Enhancement District (CRED) Program. Under current law, the state Budget Committee must review and make a recommendation to the SBA after they are notified of the local resolution designating a CRED. The SBA must approve the resolution designating the district. However, if the SBA fails to take action within 120 days of the date the resolution is submitted to the Budget Committee, the resolution is considered approved. The DOR must calculate the base income tax, base gross retail tax and base innkeeper’s tax amounts for the district. The DOR and the SBA must annually estimate and certify the amount of income tax, sales tax and innkeeper’s tax which will be collected from the district.

Current statute limits CREDs to Indianapolis and roughly 21 second class cities. It also has specific provisions authorizing CREDs in the City of Marion and municipalities in Allen, Delaware, Monroe, and St. Joseph Counties. Currently, there are two CREDs each operating in Bloomington, Ft. Wayne, and Delaware County and one CRED each operating in Marion, South Bend, and Anderson. The bill authorizes the designation of CREDs in third class cities. The provision would add approximately 90 to 95 cities that could seek approval to establish a CRED. The number of newly authorized cities and towns seeking approval and of new CREDs that could potentially be established under the bill is indeterminable and contingent on response by the newly authorized cities and towns.

Explanation of State Revenues: *Community Revitalization Tax Credit*: Taxpayers in CREDs established as a result of this bill would be entitled to the nonrefundable Community Revitalization Tax Credit. Under current statute, a taxpayer who makes a qualified investment for the redevelopment or rehabilitation of property located within a CRED is entitled to this credit. The credit is based on 25% of the qualified investment. The expenditures must be made under a plan adopted by an advisory commission on industrial development and approved by the Department of Commerce. The credit may be used to reduce the taxpayer's tax liability against the Adjusted Gross Income Tax, CAGIT, COIT, CEDIT, the Insurance Premiums Tax, and the Financial Institutions Tax. The taxpayer may carry any excess credit over to the immediately following years, but is not entitled to a carryback or refund of any unused credit. A taxpayer is not entitled to a credit if they substantially reduce or cease to operate in another area of the state in order to relocate within the district.

CRED Income and Sales Tax Increment Allocations: This bill will allow the additional cities and towns that designate a CRED to capture up to $750,000 of the incremental income, sales and innkeeper's taxes annually generated in the CRED. Current statute limits the increment that may be captured by these new CREDs to 75% of the incremental income and sales taxes and now innkeeper's taxes are included within this limit. The bill also provides that a CRED must terminate not later than 15 years after incremental income, sales or innkeeper's taxes are first allocated to the CRED. The State Budget Agency must approve the resolution designating a CRED before incremental income, sales and innkeeper's taxes may be allocated to a city or town designating a CRED. If the approval is obtained for any of the new CREDs, the state would forgo 75% of any new income or sales tax revenue up to $750,000 per year that is generated by the development in these new CREDs.

Captured incremental income and sales taxes transferred to existing CREDs totaled $492,005 for Bloomington and $24,241 for Marion in FY 2004; with no transfers made to South Bend. For FY 2005 through December 29, 2004, transfers of captured incremental income and sales taxes total $68,195 for Bloomington and $655,269 for South Bend; with no transfers yet to Marion. Bloomington, Marion, and South Bend CREDs are able to capture up to $1.0 M per year generated by CRED development, under current statute. The incremental income and sales tax revenue will be transferred to the Industrial Development Fund of the city establishing the CRED. The covered taxes which will be included are Sales Tax, Adjusted Gross Income Tax, County Adjusted Gross Income Tax, County Option Income Tax, County Economic Development Income Tax and Innkeeper's Tax.

Revenue from the corporate AGI tax, the Insurance Premiums Tax, and the Financial Institutions Tax is deposited in the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the state General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Fund (0.033%).

Explanation of Local Expenditures:

Explanation of Local Revenues: *Innkeeper's Tax Provision*: Under the bill, a city that exists within a county that has adopted the uniform innkeeper's tax *and* were to establish or have established a CRED under the provisions of current law would be able to receive a portion of the county's innkeeper's tax. The portion of innkeeper's tax that could be distributed to a CRED would equal the aggregate amount of innkeeper's tax remitted by hotels, inns, and other lodging entities in operation within the CRED in a state fiscal year less any adjustments as specified under the bill.

Background: There are currently 47 third-class cities within the 45 counties that have adopted an innkeeper's tax under the uniform statute. Total innkeeper's revenue for the 45 uniform counties was $9.6 M in FY 2004.

General Provisions: As under current law, the bill would allow a CRED to be designated in any third-class city by an advisory commission on industrial development. The commission resolution designating the CRED must be submitted to the Budget Committee for review and recommendation to the State Budget Agency. The SBA must approve the resolution before incremental income, sales or innkeeper's taxes may be allocated to the CRED. However, if the SBA fails to take action within 120 days of the date the resolution is submitted to the Budget Committee, the resolution is considered approved. The district is limited to a 15 year existence.

This bill will allow the additional cities and towns that designate a CRED to capture up to 75% of the incremental income and innkeeper's taxes generated from new development in the CRED. This revenue is to be deposited in the Industrial Development Fund of the city designating the CRED. The covered taxes which will be included are CAGIT, COIT, CEDIT and Innkeeper's. The local taxing units which would normally receive a share of the total local option income taxes generated in the CRED under current statute will not receive 75% of the incremental revenue generated. With Innkeeper's taxes, the generally the Convention, Visitor, and Tourism Promotion Funds would not receive the increment in revenue generated from this tax. Current law also allows all taxing units, except townships, to impose a levy for the Industrial Development Fund at a rate of up to $0.0167 per $100 of assessed valuation. The proceeds from the tax levy may be pledged for the payment of bonds and obligations issued in a CRED.

State Agencies Affected: Department of State Revenue, State Budget Agency, Budget Committee, State Treasurer.

Local Agencies Affected: Third-class cities.

Information Sources: Deanna J. Oware, Indiana Department of Commerce, Community Development Division, (317) 232-8917; Auditor's Revenue Trial Balance as of June 30, 2004, and December 29, 2004; Auditor's Trial Balance database; US Census Bureau; LOGODABA; *Indiana Handbook of Taxes, Revenues, and Appropriations*.

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